

State Employee Health Plan Update

Committee on Insurance & Financial
Services

January 24, 2012

The Covered Population

- 33,000 point-service (POS) enrollees – active employees, dependents and non-Medicare retirees
- 7,100 Medicare retirees (and dependents) enrolled in Medicare Advantage PPO
- Steady decline in active employees with corresponding increase in retiree population affects risk pool

Impact of FY12/13 Budget

- Enacted budget calls for flat funding for FY12/13 with FY11 the benchmark
- Medical inflation and increased utilization produced projected 6% growth in plan expenses
- For self-insured POS plan 6% growth translates to roughly \$13.4 million – the target to achieve flat funding
- For fully-insured Medicare Advantage PPO renewal quote of 12.4% required \$3.1 million in reduced plan expenses for CY2012
- Flat funding required \$15 million in reduced plan expenses for FY12

Revised Hospital Tiering

- Appropriate Care Measures (clinical quality) = 40%
- Patient Safety = 30%
- Patient Satisfaction = 10%
- Comparative Cost (Payment) = 20%
- Hospital must achieve an aggregate score of 70
- Implemented August 1, 2011

How Was it Accomplished? POS

- Hospital Benefits: implement coinsurance at all levels, introduce comparative cost for hospital services = \$6,643,000
- Prescription Drugs: increase copays for 90-day supplies = \$1,630,000
- Specialist Copay: Increase the office visit copay from \$20 to \$25 = \$484,000
- PCP Copay: increase participating PCP copay from \$10 to \$20, retain preferred copay of \$0 = \$650,000

How Was it Accomplished? POS

- Emergency Room copay: increase from \$80 to \$100 = \$850,800
- Dependent premium: modify dependent share of premium for +19 children = \$2,042,000
- Dependent premium: deletion of ineligible dependents resulting from verification audit = \$1,000,000
- Total POS plan reductions = \$13,300,000

How Was it Accomplished? Medicare Advantage PPO

- Annual deductible: increase from \$150 to \$200 = \$333,800
- Prescription Drug copay: increased same as POS = \$677,000
- Specialist Copay: introduce \$20 office visit copay = \$887,300
- Emergency room copay: introduce \$65 copay = \$743,400
- Complex diagnostic copay: introduce \$50 copay = \$143,100
- Outpatient surgery: introduce \$100 copay = \$267,400
- Total reduction in Medicare plan spend = \$3,052,000

Challenges for FY2013

- Retiree population continues to grow impacting claims experience
- Majority of members have experienced no salary or retirement cost of living adjustments in 4 years
- FY2012 plan adjustments shifted over \$12 million in costs onto plan members
- Difficult to expect employees and retirees to assume similar costs next year

Components of trend

Components of Trend (8% for 2011/2012)

For every \$1 added to employer cost

Price Inflation

- Change in the unit cost of services and products

Plan Design Leverage

- Fixed co-pays and deductibles increase the employer's share of rising expenses

Service mix

- New, more expensive technology, drugs, procedures become available.
- Providers seek new sources of revenue.

Utilization of Services

- Change in the number of medical services delivered per person

Demographics

- Younger population uses less medical resources

Price Inflation

- Provider Inflation (3%)
- Plan Design Leverage (1%)
- Technology/Newer procedures (1%)

Utilization of Services

- Use of Services (1%)
- Aging population (1%)
- Service mix (1%)



Approach for FY2013

- 11 hospitals/health systems account for 80% of SOM spend (hospital IP/OP, physicians, Rx, etc.)
- We have asked those 11 hospitals/health systems to work with us to reduce utilization and plan expenses for FY2013
- 10 have responded that they are willing to work with us – next few months will define how we proceed
- With limited time plan faces members paying more out-of-pocket and networks must be narrowed
- Full range of options on the table – narrower networks, Rx purchased from Canada, new payment arrangements
- Will seek language for FY2014 and beyond that caps plan spending growth to CPI + 3% - attainable target for plan and providers

Status of Bid Award

- Sought vendor for traditional third-party administration (TPA) services and a partner to collaborate on accountable care organization (ACO) development for the POS plan
- Received proposals from three, very capable national firms: Aetna, Anthem, CIGNA
- State Employee Health Commission selected Aetna
- Anthem, the incumbent, appealed and the Division of Purchases ruled that the process was flawed, instructed SEHC to re-evaluate the proposals with a new review team

Status of Bid Award

- Re-evaluation produced the same result – Aetna selected
- Anthem has appealed the award and an appeal hearing is scheduled for February 14th
- Assuming the award is upheld, we fully expect to implement the contract with Aetna effective July 1st
- SEHC will be issuing a RFP for the Medicare plan in 2012 with an implementation date of 1/1/13 – examining options for that plan

Questions?
